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17 January 2022

Dear Dale

Re: Statutory consultation on modifications to the RIIO-2 Transmission, Gas Distribution and Electricity System Operator licence conditions

We write in response to the statutory consultation published on 15 December 2021. We have provided an annex for each of the areas being consulted upon and an accompanying spreadsheet (SGN_DEC21_Licence_consultation_response) which details the changes we would like to see applied. Our response covers the following documents:

1. Special Conditions and Standard Special Conditions
2. Standard Licence Conditions
3. NARMS
4. Price Control Financial Handbook
5. Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document
6. Re-opener Guidance and Application Documents

If you have any questions regarding our comments or suggested amendments detailed in this letter or the accompanying spreadsheet, please do not hesitate to get in touch.

Yours Sincerely

David Handley
Head of Regulation, SGN

Annex 1: Special Conditions and Standard Special Conditions

Within our accompanying spreadsheet (SGN_DEC21_Licence_consultation_response) we have included a tab which details our comments on these licences and the changes we expect to see applied.

SpC 8.1 (Governance of GD2 PCFI) – we note the inclusion of the Materiality Threshold acting as the benchmark for determining the course of action for amending the PCFM. We are of the view that this is too high and that anything with real monetary value should be consulted on. Additionally, wording has been removed from the licence which details what would happen should the Materiality Threshold be breached, this should be reinstated as there is no guidance within the licence to determine what happens in this instance. This is a series of changes which have progressively eroded the rights of the licensee since commencement of discussion of the GD2 Licence drafting.

Some of the other changes are due to errors, these include:

SpC 3.2 (Cyber OT) and SpC 3.3 (Cyber IT) – These licences make reference in Appendix 1 to documents which contains both the ‘Baseline Allowances Table’ and the ‘PCD table’. The documents referenced in licence have been superseded by newer versions with updated values, the licence needs to reflect these updates.

SpC 3.7 (Non-operational IT) – Appendix 1 of both our Scotland and Southern licence, details the value of the PCD awarded, however this is a different value to that detailed in the PCFM. The PCFM contains both the award for the reopener and the PCD as a total value. We think the licence should reflect both values, much like it does in Appendix 1 of both SpC 3.2 and 3.3.

SpC 3.16 (Tier 2A Mains and Services) - Appendix 1 of both our Scotland and Southern licence details our ‘£ per km for mains decommissioned’. This value has been hardcoded and has not been updated in line with the CMA Final Determination. The issue around the hardcoding of our values was highlighted back to Ofgem in February 2021, it’s disappointing this wasn’t been picked up prior to the consultation release.

SpC 3.29 (Remote Pressure Management) – Appendix 1 still includes values as detailed in February 2021. We suspect this is due to the resubmission we were required to submit in December 2021. We’d appreciate if Ofgem could confirm this is the case.

Annex 2: Standard Licence Conditions

We have no comments with regards to these licence changes and are comfortable with the proposed amendments. As such a tab within our accompanying document (SGN_DEC21_Licence_consultation_response) reserved for these changes is blank.

Annex 3: NARMs

Within our accompanying spreadsheet (SGN_DEC21_Licence_consultation_response) we have included a tab which details our comments on the NARMs Handbook and Workbook, and the changes we expect to see applied.

We have also included a separate response to the NARM Handbook (addressed to Min Zhu) alongside a corrected NARM Workbook (NARW). These should be read in conjunction with this response.

Annex 4: Price Control Financial Handbook and Model

Within our accompanying spreadsheet (SGN_DEC21_Licence_consultation_response) we have included a tab which details our comments on Price Control Financial Handbook (PCFH) and the changes we expect to see applied.

As per our letter regarding the PCFM which we submitted on 22 November 2021 and the subsequent response we received back from Penny Harandy on 26 November 2021, the comments we made in our original letter should be read in conjunction with this response as outstanding issues still remain.

We have provided a comment within Annex 6 of this response (Reopener Guidance) which should be read in conjunction with these comments.

Annex 5: Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document

Within our accompanying spreadsheet (SGN_DEC21_Licence_consultation_response) we have included a tab which details our comments on this Governance Document and the changes we expect to see applied.

However, we wanted to highlight here one particular concern with some of the wording attributed to NZASP Contributions. We fundamentally disagree the default position for expected contribution should be 10%, even on projects which are substantially innovation led.

Our expectation is that NZASP projects are delivering BEIS hydrogen road map, any innovation studies undertaken are focussed on supporting its delivery. They are responsible for creating the option of a least cost decarbonisation pathway and generating the customer benefits which will arise as a result.

By applying a default 10% contribution, networks who are most pro-active in this environment will be unfairly penalised as their shareholders will end up contributing more than networks who are less active. However, if the innovation is successful both shareholders benefit equally. As such, where a NZASP project is found to be delivering evidence which informs the BEIS decarbonisation of heat policy position or FEED studies, it is not appropriate for a 10% shareholder contribution to be applied.

Additionally, for all NZASP projects which are delivering environmental benefits (such as supporting deployment of biomethane or reducing methane emissions) we do not believe a default contribution of 10% is appropriate. These projects are equivalent to PCDs, which could be submitted under business plans. These projects would not have a 10% contribution applied and again it is therefore inappropriate for this default position to be applied. A further example of this is the DNOs provision of EV charging infrastructure.

The default position for this guidance should therefore be zero, an adjustment upwards should only be applied if there is a clearly identifiable network benefit.

Annex 6: Re-opener Guidance and Applications Requirements

Within our accompanying spreadsheet (SGN_DEC21_Licence_consultation_response) we have included a tab which details our comments on this Guidance Document and the changes we expect to see applied.

These comments highlight a couple of areas where we would like further clarity.

In the Cost Information (Section 3.20), there is no mention of how, or if, RPEs should be considered. Particularly for those reopeners which are looking at future expenditure (such as IT, net zero pre-construction and net zero reopeners). We believe RPEs require stronger consideration for inclusion in reopener applications where merited.

Section 3.21 of the Guidance highlights the inclusion of the 'Infrastructure and Projects Authority Cost Estimating Guidance'. We welcome the inclusion of this new guidance; however, we would welcome further dialogue with Ofgem on the matter when it comes to applying this guidance in practice.

We'd like to raise in this response that we think there needs to more flexibility within the PCFM to align reopeners with the appropriate capitalisation rates and Totex Variant Allocation Percentages for each individual submission, rather than the fixed variable applied to all. For example, currently within the PCFM there is the ability to adjust the Totex Variant Allocation Percentages for the Cyber Resilience OT, Cyber Resilience IT, Physical Security Reopeners. Such functionality should be available for all reopeners across the PCFM. Additionally, we believe the capitalisation rates applicable to each reopener should be available for review and adjustment, to drive consistency with the actual expenditure and capitalisation treatment within the PCFM model.